Annual Report

For Year Ending
December 31, 1990

Alberta
AUTOMOBILE INSURANCE BOARD

CCA-08.003

91-05804/

CONSUMER AND
CORPORATE AFFAIRS

Office of the Minister

229 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-2305 Fax 403/422-6997

The Honourable Dr. David J. Carter
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the Annual Report of the Alberta Automobile Insurance Board for the year ending December 31, 1990.

With sincere regards,

Dennis Anderson
Minister

Alberta
AUTOMOBILE INSURANCE BOARD

19th Floor, 10025 Jasper Avenue, Edmonton, Alberta, Canada T5J 3Z5 403/427-5428

The Honourable Dennis Anderson
Minister of Consumer and Corporate Affairs
229 Legislative Building
Edmonton, Alberta

Honourable Sir:

Pursuant to R.S.A. 1980, Chapter 1-5, the Insurance Act, Section 344(2), we respectfully submit herewith, the nineteenth report of the Alberta Automobile Insurance Board, for the year ending December 31, 1990.

A.H. Wachowich, Chairman

P.G. Galway

J.M. Tweddle

E.P. Chaba

ALBERTA AUTOMOBILE INSURANCE BOARD
1990 ANNUAL REPORT

The Alberta Automobile Insurance Board, constituted under subsection 338(1) of The Insurance Act, is empowered under section 339 thereof to investigate any matters it thinks fit respecting automobile insurance in Alberta, and to approve rates charged by insurers for compulsory automobile coverage under The Motor Vehicle Administration Act.

RATES

Insurers conducting business in Alberta are required by The Insurance Act to report their experience to a Canadian statistical plan, the results of which are compiled annually in an Insurance Bureau of Canada publication called the Green Book. The 1989 statistics in the Green Book, released in November 1990 were analyzed by the Board's actuarial consultant. These analyses were used in weighted proportions with the insurers' own statistics and those of insurance underwriting groups to establish a base for any rate maintenance or rate change to be considered by the Board. After relatively stable experience through the early 1980's, the 1985 results showed a marked deterioration, particularly for Private Passenger vehicles and that trend has continued each year since. Competition served to delay any general increase in premium level until, by late 1988, insurers accepted the inevitable and initiated corrective measures with the activity continuing through 1989 and 1990. The accrued underpricing of 1985 to 1989 has been generally satisfied and insurers are now in position to respond to current circumstances.

MARKET

The premium increases for Private Passenger vehicles that began in the latter part of 1988 continued through 1989 and 1990. The accumulated shortfall in premium level which could not be remedied by a single increment, has been largely satisfied but continued deterioration will prompt insurers to seek regular annual adjustments. Final results for 1990 will post large losses, even after investment income.

Successive years of unacceptable bottom line results have been manifested in increasingly restrictive underwriting practices. Drivers with no recent losses or convictions continue to enjoy ready access to the market; however, those with some frequency of claims are offered renewal at higher deductiblees for physical damage coverages or, where such action does not address the problem, are denied renewal.

The Facility Association is the industry's mechanism for providing insurance coverage to those consumers encountering difficulty in obtaining the same in the regular market. The Board monitors the Association's program for all coverages. Consistent with the standard market, their experience has continued to deteriorate for Third Party Liability coverage, particularly on Private Passenger vehicles. With the re-underwriting of portfolios by the standard market, the Facility Association market share has increased.

MEETINGS

In 1990, the Board held 10 meetings during which 129 applications were examined. This number compares with 135 applications in 1989, 84 in 1988 and 93 in 1987. In 1990, a total of seventy applications were not approved as submitted. Two applications were declined, which were subsequently revised, resubmitted and approved. Another sixty-eight applications were approved subject to specified modifications.

LIAISON

Representatives of the Automobile Insurance Board met with the executive members of the following industry associations during 1990 in order to maintain dialogue with the industry's various component groups:

Insurance Bureau of Canada
Insurance Brokers Association of Alberta
Facility Association

and also attended:

Canadian Insurance Congress
Insurers Brokers Association of Alberta Annual Convention

These meetings occurred between September and November 1990.

INQUIRIES

Inquiries and complaints are monitored for unfair and inequitable rules and practices. Complaints are assessed for compliance with rates and rules, and are generally resolved by the provision of a detailed explanation. Appropriate action to rectify the disparity for the individual and/or the general public is taken by the Board. Of the 867 inquiries received by the Board office in 1990, 114 were redirected to other government departments.

BENEFITS

The current compulsory Third Party Liability limit of $200,000 places Alberta at a level at least equal to any other Canadian jurisdiction. However, the Board recognizes the critical importance of adequate limits and continues to maintain its recommendation of a compulsory limit of at least $300,000 which would involve an increase of approximately 4% to the Third Party Liability premium.

STAFF

Susan Steeves, B.A., F.I.I.C., continued as Administrator to the Board. Marlene Boyarzin is the Clerk Typist.

MEMBERSHIP ON THE BOARD

There were no changes in Board membership during 1990.

GENERAL

In the course of its operations, the Board reviews the automobile insurance system and how it performs in changing circumstances. As part of this process, changes in other jurisdictions are monitored and evaluated as to potential impact were they introduced in Alberta. In 1990, at the request of the Minister, the Board undertook a more formal, in-depth examination of the current system of compensating injury victims of motor vehicle accidents and possible alternatives. The Board is scheduled to report to the Minister in the first half of 1991.

The rapid increase in loss costs since 1985 and subsequent increases in premium level over 1989 and 1990, raises the question of how to stabilize loss costs and, thereby, premiums. The task is to identify any inherent problems of the current compensation system and possible methods to resolve any such shortcomings. The study will measure the economic impact of a range of alternatives from modest amendments to the current tort system to fundamentally different approaches to compensating for injuries, including variations on no-fault. The objective is a system of fair and adequate compensation at the most reasonable cost to the motoring public.

While some savings may be realized by modifying or even revamping the compensation system, it must be understood that the insurance industry is not the total problem and cannot account for the entire solution. Loss costs are a function of the number and severity of accidents. Alberta accident statistics continue to deteriorate, and it follows that any realistic and long-term solution to insurance pricing demands an improved performance on the roadways. All motorists must accept a share of responsibility but it is apparent that problem areas exist that demand special attention. Law enforcement has a significant role with respect to alcohol related offenses and other flagrant violations of the Highway Traffic Act. Given the benefits of seatbelt restraint in reducing numbers and severity of injuries and the count of fatalities, a more rigorous enforcement of seatbelt legislation could yield positive results. Another concern is the over representation of drivers in the 16 to 24 age group in accident statistics, which raises the question of graduated licences to limit exposure and consideration of raising the legal driving age. While the importance of fair and efficient settlement of injury claims by the insurance industry should not be understated, emphasis must also be placed on improved driver behaviour, vehicle safety and road safety.

The questions surrounding the use of age, gender and marital status as rating criteria for young drivers continue to be at issue. On March 2, 1990, the Human Rights Commission released its decision on the complaint of Adrian Murray Watters v. The Co-operators, ruling that the Co-operators is in violation of the Alberta Individual's Rights Protection Act in the use of gender as a rating criterion and

directed the insurer cease and desist in the practice. The Co-operators has been granted leave to be heard by the Alberta Court of Appeal and the matter is still pending. Should the Commission's decision be upheld, there will be twelve months grace to achieve the necessary modifications to the classification system. The Ontario case of Bates v. Zurich in which the Ontario Divisional Court and Ontario Court of Appeal found current rating practices to be reasonable, is now before the Supreme Court of Canada. There is some expectation that the case will be argued in the spring of 1991.

Another rating criterion is territory. Alberta is divided into three geographical areas for the purpose of rating third party liability coverage. The cities of Calgary, Edmonton and surrounding areas comprise one rating territory. However, because of marked differences in loss experience, a number of insurers have separated the Calgary and Edmonton regions for the rating of physical damage coverages (collision and comprehensive) as Board approval is not required. The difference in experience has been consistent over recent years, and separate rating territories for the two cities are actuarily justified. The Board can expect to be petitioned increasingly to allow separate rating territories to extend to third party liability coverage.